



County of Los Angeles CHIEF EXECUTIVE OFFICE

713 KENNETH HAHN HALL OF ADMINISTRATION
LOS ANGELES, CALIFORNIA 90012
(213) 974-1101
<http://ceo.lacounty.gov>

WILLIAM T FUJIOKA
Chief Executive Officer

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To: Supervisor Yvonne B. Burke, Chair
Supervisor Gloria Molina
Supervisor Zev Yaroslavsky
Supervisor Don Knabe
Supervisor Michael D. Antonovich

From: William T Fujioka
Chief Executive Officer

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WASHINGTON, D.C. UPDATE

PRESIDENT'S PROPOSED FEDERAL FISCAL YEAR 2009 BUDGET

Budget Overview

On February 8, 2008, President Bush released his proposed \$3.1 trillion budget for Federal Fiscal Year (FFY) 2009, which will begin on October 1, 2008. The President's proposed budget mirrors the broad themes of his previous proposed budgets, and includes many prior proposals, including increased defense spending to fight the wars in Afghanistan and Iraq, entitlement spending reductions, a reduction in the growth in non-security discretionary spending, and major reductions in many domestic programs. This memorandum presents our preliminary analysis of the President's FFY 2009 Budget based on the budget documents released today. We will provide your Board with a more detailed analysis after more detailed budget information becomes available.

The President's proposed FFY 2009 Budget includes proposals, which would terminate or significantly reduce funding for many domestic programs. It would limit the growth of overall funding for discretionary non-security programs to 0.3 percent, which is well below the rate of inflation. Funding for discretionary programs are set in annual appropriations bills. Below are the highlights of the President's budget proposals:

Medicare and Medicaid

The largest budget reductions in the President's proposed FFY 2009 Budget would come from Medicare and Medicaid programs. The President proposes to reduce the growth in Medicare spending by roughly \$182 billion over five years, mainly through reductions in payments to providers. Those hospitals which receive Medicare funding

would be especially affected by the cuts. The Administration also proposes to reduce Medicaid spending by roughly \$18 billion over five years. These Medicaid reductions would be in addition to the savings from its previously proposed Medicaid regulations, including those which cap Medicaid payments to government providers and eliminate Graduate Medical Education payments. Most of the new Medicaid savings would come from proposals to reduce Federal matching funds for certain administrative, family planning, and case management costs. We will provide a more detailed report to your Board on the proposed Medicare and Medicaid spending reductions after the Administration releases more specific language on its proposals.

Other Proposals Affecting Entitlement Programs

Title IV-E Foster Care: Similar to prior years, the Administration proposes to provide states with the option of receiving greater flexibility over the use of Title IV-E foster care funds in exchange for having their Federal funding capped over a five-year period.

State Children's Health Insurance Program (SCHIP): The President proposes to increase SCHIP funding by \$19.7 billion over the next five years, which is more than the \$5 billion increase that he requested last year, but less than the \$35 billion increase sought by Congress in the vetoed SCHIP reauthorization bills. The Administration indicates that its \$19.7 billion increase would be sufficient to fully fund health insurance for children in families with incomes up to 200 percent of the Federal Poverty Level (FPL), which is less than the coverage up to 300 percent of FPL supported by Congress and many states, including California.

Temporary Assistance to Needy Families (TANF): The President proposes to reduce the current 90 percent work participation rate requirement for two-parent families to a 50 percent participation rate, which is the same as for all families. As previously reported to your Board, it is highly unlikely that most states, including California, would be able to meet the 90 percent work participation rate for two-parent families. States which fail to meet work participation rate requirements are subject to potential Federal fiscal sanctions.

Department of Health and Human Services (HHS) Discretionary Programs

Most HHS programs of importance to the County, including Ryan White AIDS programs, Maternal and Child Health Block Grant, Mental Health Block Grant, Child Welfare Services, Older Americans Act programs, and Refugee Social Services and Targeted Assistance, would be funded at or near their prior year funding levels in FFY 2009. However, similar to previous years, the President once again proposes to eliminate the \$654 million Community Services Block Grant and \$97 million Preventive Health Block Grant. The Administration also proposes to reduce Public Health Preparedness Grant funding by \$137 million to \$609 million in FFY 2009 and to reduce Hospital Preparedness Grant funding by \$58 million to \$420 million in FFY 2009. Similar to last

year, the President is proposing to reduce Social Services Block Grant (SSBG) funding by \$500 million to \$1.2 billion in FFY 2009. However, this year, the President also proposes that SSBG be terminated in FFY 2010.

Department of Justice Programs

The President proposes to terminate existing state and local law enforcement programs, including the State Criminal Alien Assistance Program (SCAAP), Byrne Justice Assistance Grant, Southwest Border Prosecutor Program, Drug Courts, DNA Initiative, and Community-Oriented Policing Services (COPS) programs, which are funded at a combined total of \$1.5 billion in FFY 2008. These programs would be replaced by two competitive grant programs, which would be funded at a combined total of \$400 million, and \$4 million in community policing training and technical assistance. The President also proposes to terminate nearly \$384 million in existing juvenile justice programs, including the Juvenile Accountability Block Grant, Juvenile Justice Mentoring, and various delinquency prevention programs, with a new \$185 million child safety and juvenile justice competitive grant. Last year, Congress rejected similar Administration proposals to replace existing state and local law enforcement and juvenile justice programs with new competitive grant programs funded at far lower levels.

Department of Homeland Security (DHS) Grant Programs

The President is proposing an overall net reduction in homeland security grant funding for state and local governments in FFY 2009. His proposed budget would significantly reduce funding for the State Homeland Security Grant from \$890 million in FFY 2008 to \$200 million in FFY 2009, but increase Urban Area Security Initiative Grant funding by \$5 million to \$825 million in FFY 2009. The Administration also proposes to terminate the \$190 million Staffing for Adequate Fire and Emergency Response Program, \$50 million Interoperable Communications Grant, and \$35 million Regional Catastrophic Preparedness Grant, and reduce Emergency Management Performance Grant funding by \$100 million to \$200 million in FFY 2009 and Firefighting Grant funding by \$260 million to \$300 million in FFY 2009. The President is requesting \$110 million for a new National Security and Terrorism Prevention Grant Program, which would provide competitive grant awards for projects addressing national risks and vulnerabilities identified by the Secretary of DHS.

Other Discretionary Programs

Similar to previous years, the President is proposing major reductions in Community Development Block Grant (CDBG) and Economic Development Assistance (EDA) funding. Under his latest budget proposal, CDBG formula grant funding would be cut by \$666 million to \$2.727 billion in FFY 2009, and EDA funding would be cut by roughly \$143 million to \$100 million in FFY 2009. He also is proposing once again to consolidate the Workforce Investment Act (WIA) Adult, Youth, Dislocated Worker, and

State Employment Service programs into a new Career Advancement Accounts Grant to states, which would be funded at a significantly lower level. Congress rejected this WIA proposal in previous years.

The President proposes to increase overall HOME Investment Partnerships Program funding from \$1.704 billion to \$1.967 billion in FFY 2009 and increase Homeless Assistance Grants from \$1.586 billion to \$1.636 billion. Also of County interest, the President is proposing to increase funding for border security and immigration enforcement by 19 percent to more than \$12.1 billion. Most of the increase would be for the training and hiring of more Border Patrol and immigration agents, detention space, and border fencing and technology.

Earmark Reforms

As first announced in the President's State of the Union Address last week, the President has pledged to veto any appropriations bill which does not reduce the number and cost of earmarks by half. According to the Office of Management and Budget (OMB), FFY 2008 appropriations bills included 11,737 earmarks totaling \$16.9 billion. OMB also noted that the above totals exclude the estimated revenue loss of \$4 billion from bill language that prohibited the Department of Veterans Affairs (VA) from disposing or transferring property at the West Los Angeles VA Medical Center. Last week, the President also issued an executive order directing Federal agencies to ignore earmarks in future appropriations bills unless they include specific bill language providing earmarked funding. Earmarks generally have been included in report language accompanying appropriations bills rather than in bill text.

Budget Outlook

As indicated previously, the President's proposed FFY 2009 Budget includes many budget cuts, such as the elimination of SCAAP, which were proposed, but rejected by Congress in previous years. We expect that Congress again will reject the vast majority of the President's proposed budget cuts this year. However, the Democrat-controlled Congress may not be able to secure their desired spending increases. Similar to last year, the President can veto appropriations and other spending bills that he does not support, and will likely have sufficient Republican backing to sustain his vetoes. "Pay-as-you go" budget rules also will make it difficult to enact legislation that increases entitlement spending, including legislation that would block the implementation of pending Medicaid regulations that would significantly reduce Medicaid funding for the County.

Therefore, similar to last year, another budget stalemate between the Administration and Democrat Congress may occur this year. It also is likely that the FFY 2009 Budget will not be finalized until after the November 2008 elections and after a new President takes office. In fact, since President Bush took office, all annual appropriations bills